



# Legislative Audit Division

State of Montana

Report to the Legislature

October 2006

## Financial-Compliance Audit For the Two Fiscal Years Ended June 30, 2006

### Montana Historical Society

This report contains eight recommendations for improving Historical Society compliance and one disclosure issue on severance pay. The recommendations relate to:

- ▶ Undercharging indirect costs by \$169,446
- ▶ Drawing excess federal cash
- ▶ Recording financial activity in accordance with state law and accounting policy
- ▶ Managing historical artifacts according to its own policies

Direct comments/inquiries to:  
Legislative Audit Division  
Room 160, State Capitol  
PO Box 201705  
Helena MT 59620-1705

06-24

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## **FINANCIAL-COMPLIANCE AUDITS**

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2007, will be issued by March 31, 2008. The Single Audit Report for the two fiscal years ended June 30, 2005, was issued on March 6, 2006. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator  
Office of Budget and Program Planning  
State Capitol  
Helena MT 59620  
Phone (406) 444-3616

Legislative Audit Division  
Room 160, State Capitol  
PO Box 201705  
Helena MT 59620-1705

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# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
Tori Hunthausen,  
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:  
James Gillett  
Jim Pellegrini

October 2006

The Legislative Audit Committee  
of the Montana State Legislature:

This report is the result of our financial-compliance audit of the Montana Historical Society (Society) for the two fiscal years ended June 30, 2006. The report includes eight recommendations to the Society which are intended to improve operations and compliance for Society programs. This report also contains a disclosure issue regarding severance pay to Society employees.

The written response to the audit recommendations is included at the end of the audit report. We thank the Society's staff for their assistance and cooperation provided during the audit.

Respectfully submitted,

*/s/ Scott A. Seacat*

Scott A. Seacat  
Legislative Auditor

# **Legislative Audit Division**

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## **Financial-Compliance Audit**

**For the Two Fiscal Years Ended June 30, 2006**

## **Montana Historical Society**

Members of the audit staff involved in this audit were  
Jeane Carstensen-Garrett, John Fine, Laura L. Norris and  
Amber Thorvilson.

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## **Appointed and Administrative Officials**

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### **Montana Historical Society Board of Trustees**

		<u>Term Expires</u>
Sharon A. Lincoln, President	Billings	7/01/08
James W. Murry, Vice President	Clancy	7/01/10
Jim Court	Billings	7/01/09
Dr. Thomas A. Foor	Missoula	7/01/08
Shirley Groff	Butte	7/01/10
William M. Holt	Lolo	7/01/08
George Horse Capture	Great Falls	7/01/11
Kent Kleinkopf	Missoula	7/01/07
Katherine Lee	Glendive	7/01/07
John G. Lepley	Fort Benton	7/01/10
Steve Lozar	Polson	7/01/07
Thomas Nygard	Bozeman	7/01/11
Lee Rostad	Martinsdale	7/01/09
James Utterback	Helena	7/01/09
Crystal Wong Shors	Helena	7/01/11

### **Montana State Historical Preservation Review Board**

		<u>Term Expires</u>
H. Rafael Chacon	Lolo	10/01/08
Kathy Doeden	Miles City	10/01/07
Paul Filicetti	Missoula	10/01/08
Conrad Fisher	Lame Deer	10/01/06
Douglas E. Johnson	Hamilton	10/01/06
Timothy Light	Kalispell	10/01/08
Don Matlock	Hamilton	10/01/09
James Rea	Glasgow	10/01/07
Robert Valach	Lewistown	10/01/07

### **Montana Lewis & Clark Bicentennial Commission**

		<u>Term Expires</u>
Homer Staves, Chair	Billings	10/01/07
March Hamburg	Sidney	10/01/06
Darrell Kipp	Browning	10/01/07
John "Jack" Lepley	Fort Benton	10/01/07
Wyman McDonald	Ronan	10/01/07
Jeanette "Tootie" Rasmussen	Choteau	10/01/07
Mark Sansaver	Wolf Point	12/01/07
Hal Stearns	Helena	10/01/07
Betty Stone	Glasgow	10/01/07

Betsy Baumgart, Director, Travel Montana,  
Department of Commerce  
Doug Monger, Representative, Parks Division,  
Department of Fish, Wildlife & Parks  
Richard Sims, Director, Historical Society

## **Appointed and Administrative Officials**

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### **Montana Historical Society Administrative Officials**

Richard Sims, Director, Historical Society

Clint Blackwood, Executive Director, Montana Lewis & Clark  
Bicentennial Commission

Beth Campbell, Acting Centralized Services Division Manager, as of  
July 24, 2006

For additional information concerning the Montana Historical Society,  
contact Beth Campbell, Acting Centralized Services Manager at:

225 North Roberts

PO Box 201201

Helena, MT 59620-1201

(406) 444-0702

e-mail: [bcampbell@mt.gov](mailto:bcampbell@mt.gov)

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**Montana Historical  
Society**

This report documents the results of our financial-compliance audit of the Montana Historical Society (Society) for the two fiscal years ended June 30, 2006. The previous audit report contained four recommendations. Of these, two were implemented and two were not implemented.

This report contains eight recommendations. The recommendations address areas where the Society can improve compliance with federal regulations, state laws and regulations, and Society policies. The report also contains a disclosure issue regarding severance pay to Society employees.

We issued an unqualified opinion on the financial schedules contained in this report. This means the reader can rely on the presented financial information and the supporting data on the state's accounting records.

The listing below serves as a means of summarizing the recommendations contained in the report, the Society's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the Society:

- A. Recover indirect costs to the fullest extent possible in accordance with state law.
- B. Notify and receive approval from the Office of Budget and Program Planning prior to accepting grants that limit the Society's ability to recover indirect costs as required by state law. .... 6

Society Response: Concur. See page B-3.

Recommendation #2

We recommend the Society minimize the time between the draw of federal funds and their disbursement for federal program purposes as required by federal regulations..... 7

Society Response: Concur. See page B-3.



## Report Summary

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<u>Recommendation #3</u>	We recommend the Society analyze its federal special revenue fund accounts as required by state accounting policy and correct identified errors. ....	7
	<u>Society Response:</u> Concur. See page B-4.	
<u>Recommendation #4</u>	We recommend the Commission distribute Lewis & Clark license plate revenue proceeds to entities and organizations that meet the criteria established by the Commission in accordance with state law.....	8
	<u>Society Response:</u> Partially concur. See page B-4.	
<u>Recommendation #5</u>	We recommend the Society record the inter-entity loan to finance the bronze relief for the Montana State Senate chambers on the accounting records in accordance with state law.....	10
	<u>Society Response:</u> Concur. See page B-4.	
<u>Recommendation #6</u>	We recommend the Society comply with its policies governing the management and control of its collections and follow its monitoring procedures to ensure all artifacts are properly controlled. ....	12
	<u>Society Response:</u> Partially concur. See page B-5.	
<u>Recommendation #7</u>	We recommend the Society: A. Record activity on the accounting records in the proper fund in accordance with state law, and <u>Society Response:</u> Partially concur. See page B-5. B. Maintain support for the administrative fees charged to programs within the Society. ....	12
	<u>Society Response:</u> Concur. See page B-6.	

Recommendation #8

We recommend the Society

- A. Record revenue and expenditure activity within the proper revenue and expenditure classifications on the accounting records;

Society Response: Partially concur. See page B-6.

- B. Recognize federal grant revenue when it is earned; and

Society Response: Concur: See page B-6.

- C. Enter all activity related to credit card transactions at the Society on the accounting records in accordance with state accounting policies and procedures..... 14

Society Response: Concur. See page B-6.

# Introduction

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## General

We performed a financial-compliance audit of the Montana Historical Society (Society) for the two fiscal years ended June 30, 2006. The objectives of the audit were to:

1. Determine if the Society complied with applicable laws and regulations.
2. Make recommendations, if necessary, for improvement in the management and internal controls of the Society.
3. Determine if the financial schedules present fairly the results of operations for the two fiscal years ended June 30, 2006.
4. Determine the status of the prior audit recommendations.

This report contains eight recommendations to the Society. Other areas of concern deemed not to have a significant effect on the successful operations of the Society are not specifically included in the report, but have been discussed with management. In accordance with section 5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendations contained in this report.

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## Montana Historical Society Background

The Society was originally organized under the provisions of an act of the Legislative Assembly of the Territory of Montana in 1865. The Society received its first appropriation from the state of Montana in 1891. "An act to Perpetuate the Historical Society of the State of Montana," approved in 1949, established the Society as an agency of state government. The purpose of the Society is to protect, preserve, and interpret Montana and western American history for the benefit of the public. The Society conducts its operations in the following programs:

The **Administration Program** (18.33 FTE) provides supervision and coordination for all programs of the Society. Activities include public information, accounting and business management, financial reporting, fund-raising, security and building management. The administration program is also responsible for managing the Society's museum store. The museum store operates in response to

## Introduction

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public demand (primarily through direct mail) from a broad base of people interested in western history.

The **Research Program** (16.09 FTE) is the Society's research center and incorporates three functional sections: the library, the archives, and the photograph archives. The staff is responsible for collecting, organizing and preserving historical photos, books, and other research materials relevant to Montana. The staff also assist the public and other Society program staff in the use of research material.

The **Museum Program** (9.67 FTE) collects fine art and historical archeological and ethnological artifacts that pertain to Montana and its adjoining geographic region. In addition to caring for the Society's museum collections, program staff conduct research, produce exhibits, sponsor public programs, answer reference requests from the public and provide technical assistance to other museums. The museum also provides education and tours for the public.

The **Publications Program** (6 FTE) consists of two areas: Montana, The Magazine of Western History and the Montana Historical Society Press. Montana, The Magazine of Western History assists the Society in fulfilling its statutory mission of preserving Montana history and providing educational outreach. The Montana Historical Society Press publishes books on the history of Montana and the northern plains.

The **Historic Sites Preservation Program** (9.5 FTE) provides assistance to people in the state to preserve significant historic and prehistoric buildings and sites. Society staff are available to advise, assist, and support people in their care of these sites.

The Society also performs certain administrative duties for the Lewis & Clark Bicentennial Commission (Commission) as provided in the enabling legislation for the Commission. In this capacity, the Society directs and supervises Commission budgeting, record

keeping, reporting and related administrative and clerical functions. The Society also collects and deposits revenue, provides staff, submits reports and budget requests, and distributes required notices, rules or orders on behalf of the Commission. The director of the Society is responsible for representing the Commission in communications with the Governor.

The Legislature established the Commission for coordinating and promoting observance of Montana's bicentennial commemoration of the Lewis & Clark Expedition and the importance of the roles played by Montana's Native American people to the Lewis & Clark Expedition. By law, the Commission is administratively attached to the Society and terminates December 31, 2006.

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### **Prior Audit Recommendations**

We determined the status of the four prior audit recommendations directed to the Society. The Society has implemented two and has not implemented two recommendations. The Society has not complied with federal cash management regulations, discussed further on page 6, or with policies governing the management of its collections, discussed further on page 10.



# Findings and Recommendations

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## Grant Management

The Society administers federal grants to finance a portion of its program activities. Grant administration includes collecting indirect cost recoveries, drawing federal funds as the programs expend them, and accounting for grant related transactions. The following three sections address situations where the Society can improve its management of grant funds and compliance with state and federal laws and regulations.

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## Indirect Costs

### **The Society is not charging indirect costs to its federal programs in accordance with state law.**

The Society receives financial assistance from the federal government to operate the State Historic Preservation Office. As part of this assistance, the Society receives funding for its indirect costs through the use of an indirect cost rate. Section 17-1-106, MCA, states an agency may not waive or otherwise forfeit the agency's ability to recover indirect costs that are otherwise allowable costs under the program.

The Society prepares and submits an annual indirect cost rate proposal to the federal government for its review and approval. Based on these proposals, the Society had federally approved indirect cost rates of 25.07 percent and 33.11 percent for fiscal years 2004-05 and 2005-06, respectively. The grant agreement limited the recovery of indirect costs to 25 percent. Society personnel felt the approved rates were too high and did not leave enough for the direct program costs, therefore taking away from the program itself. As a result, the Society did not recover indirect costs to the fullest extent possible. The Society undercharged indirect costs by \$55,043 in fiscal year 2004-05 and \$114,403 in fiscal year 2005-06. As a result, the majority of these costs were paid from the General Fund.

In addition, section 17-1-106, MCA, states an agency that applies for or otherwise receives funds through federal grants that do not allow the agency to fully recover indirect costs shall notify and must receive written approval from its approving authority prior to

## Findings and Recommendations

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accepting the funds. As noted above, the Society's approved indirect cost rate was greater than that allowed by the grant agreement. Society personnel indicated they were not aware of this requirement and would work with the Office of Budget and Program Planning on receiving the proper approval in the future.

### **Recommendation #1**

**We recommend the Society:**

- A. Recover indirect costs to the fullest extent possible in accordance with state law.**
- B. Notify and receive approval from the Office of Budget and Program Planning prior to accepting grants that limit the Society's ability to recover indirect costs as required by state law.**

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## Cash Management

**The Society did not request federal cash in accordance with federal regulations.**

The Society received grants from the National Park Service in fiscal years 2004-05 and 2005-06. The federal regulations require the Society to request federal funds on a reimbursement basis and minimize the time between the draw of funds from the federal government and their disbursement for federal program purposes. To comply, the Society must limit each draw to the minimum amount needed and must time the draw to coincide with actual, immediate cash disbursements for federal program costs.

We noted seven instances where the Society drew federal cash in excess of its needs for periods of 19 to 49 days, resulting in positive cash balances ranging from \$20,530 to \$56,099. Society personnel perform draws based on cash needs estimated by program personnel. Centralized Services Division personnel indicated they would work with the program personnel to match the timing and amount of cash draws more closely to the time the cash is actually needed.



## Findings and Recommendations

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### **Recommendation #2**

**We recommend the Society minimize the time between the draw of federal funds and their disbursement for federal program purposes as required by federal regulations.**

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### **Federal Special Revenue Fund Account Balances**

**Fund Balance is misstated as a result of improper fiscal year-end review and analysis.**

The Society's federal special revenue fund activity consists of several federal grant programs that operate both on a cash advance and cost reimbursement basis. Under state accounting policy, the Society does not earn revenue in these programs until it incurs expenditures that are allowable under the individual grant agreements and federal regulations. Generally, revenue should equal expenditures in these accounts and fund balance at June 30<sup>th</sup> each year should be zero.

We compared the Society's federal revenues to expenditures and analyzed the fund balance for fiscal years 2004-05 and 2005-06. We found two of the three accounts do not have revenues that equal expenditures and also have a fund balance for both fiscal years.

The Department of Administration issues a memorandum each fiscal year with instructions and guidance on achieving proper account balances in the federal special revenue fund at fiscal year-end. This guidance directs agencies to analyze reports during the fiscal year cut-off period and to make adjustments necessary to properly record revenue in federal accounts. The Society should analyze its federal special revenue fund activity at fiscal year-end to determine and make corrections required by state policy.

### **Recommendation #3**

**We recommend the Society analyze its federal special revenue fund accounts as required by state accounting policy and correct identified errors.**

## Findings and Recommendations

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### **Improper Use of Revenues**

**The Lewis & Clark Bicentennial Commission (Commission) did not comply with state law regarding the use of Lewis & Clark license plate revenues.**

The Commission contracted with a private foundation to start and administer the Lewis & Clark Legacy Campaign (campaign). The goal of the campaign was to raise funds for the activities commemorating the anniversary of the expedition. The Commission paid approximately \$177,000 of start-up expenses for the private foundation for the campaign with the understanding these funds would be repaid once the campaign received adequate donation revenues. The campaign was not as successful as originally planned, and, as a result, the Commission was never repaid any of the funds advanced.

Section 2-15-151, MCA, states the Commission shall establish the criteria that entities or organizations are required to meet in order to receive Lewis & Clark license plate revenue proceeds. The criteria established by the Commission did not include campaign expenses.

Commission personnel indicated at the time they paid these expenses, they believed the campaign was going to be a successful endeavor and the Commission would be repaid. Since the Commission is no longer active and its function was administratively attached to the Society, the recommendation for corrective action is addressed to the Society.

#### **Recommendation #4**

**We recommend the Society distribute Lewis & Clark license plate revenue proceeds to entities and organizations that meet the criteria established by the Commission in accordance with state law.**

## Findings and Recommendations

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### Inter-entity Loan

**The Society did not record a \$51,912 inter-entity loan from the Lewis & Clark Bicentennial Commission (Commission) license plate sales proceeds to purchase a bronze relief artwork for the Montana State Senate chambers.**

The 2003 Legislative session passed Senate Bill 195 requiring the Society to procure a bronze relief for placement in the Montana State Senate chambers. The legislation required the Commission to secure outside funding to pay for the bronze relief. The Society, in conjunction with the Commission, secured an artist to complete the bronze relief and made bronze and silver medallions of the relief, as well as small bronze reliefs, available for sale in order to pay for the costs of the project.

The Commission obtained a \$50,000 loan from the Board of Investments to help pay the start-up costs of the project. In fiscal year 2005-06, the Commission paid off this loan using Lewis & Clark license plate sales proceeds with the understanding the funds would be repaid from the sales of the medallions and small bronze reliefs. The total principle and interest paid by the Commission on the loan was \$51,912.

Section 17-2-107(3), MCA, states the Department of Administration may authorize a temporary loan, bearing no interest, of unrestricted money from other accounting entities if there is reasonable evidence the income will be sufficient to repay the loan within one calendar year, and if the loan is recorded in the state's accounting records. Although the license plate funds came from a separate accounting entity, the Society did not record an inter-entity loan. Section 2-15-151, MCA, states the Commission shall establish the criteria that entities or organizations are required to meet in order to receive Lewis & Clark license plate revenue proceeds. The criteria established by the Commission did not include activity related to the bronze relief.

Society personnel indicated they felt an inter-entity loan was not needed because the legislation required the Commission to secure

## Findings and Recommendations

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the funding for the project. However, all Society personnel involved with the project still have the understanding the license plate funds were a loan that should be repaid.

### **Recommendation #5**

**We recommend the Society record the inter-entity loan to finance the bronze relief for the Montana State Senate chambers on the accounting records in accordance with state law.**

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### **Controls Over Historic Treasures**

**The Society does not document the state's historic artifacts in accordance with Society policy, nor do they monitor artifacts on a regular basis.**

The Society collects historical artifacts pertaining to the history of Montana. Currently, the museum has over 50,000 historical artifacts in its collection and it receives approximately 1,000 new artifacts each year. The Society has established policies and procedures to ensure all collections are secured and properly managed. Once an artifact has been accessioned, or added to the museum collection, Society policy directs employees to prepare both catalog and location cards for each historical artifact that is either owned by or on loan to the Society. The catalog and location cards are also referred to as the accession cards. The catalog card contains a description of the artifact and a corresponding location card contains the physical location of the artifact.

We compared ten artifacts from the catalog and location cards to the actual location of the artifacts, and five artifact items from their actual location to the catalog and location cards. We were unable to locate two of the selected artifacts, four artifacts did not have a location card, one artifact had an incorrect location, one artifact was not cataloged and did not have an accession number, and three artifacts were not cataloged. Even though the Society did not have accurate catalog and location cards for these items, accurate records

## Findings and Recommendations

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were found by looking to other files the Society maintains on its collections.

The Society has not completed a physical inventory of all museum artifacts in over 20 years. Society personnel complete a spot inventory in December of each year. The last two spot inventory checks resulted in the Society reviewing 69 artifacts of which two items were not cataloged and did not have an accession number, and eight of the location cards had an incorrect physical location. They also inventory all artifacts when placing them on exhibit in the museum.

The Society's procedures state, "the documentary value of a museum, library, and archival collection is the principle criteria of excellence and requires accession cards be of the highest order, accuracy, and completeness. Items in the collections shall be as completely documented as possible."

Historical artifacts can have high monetary value, sentimental value, and importance to the people of Montana. If accurate records do not exist, there is the potential for lack of availability for use, theft, or loss of items. The Society does not adequately document its museum artifacts, currently valued at \$57.5 million.

Society personnel state they do not have the funds or the staff resources to monitor artifacts on a regular basis. Inventories are performed when they receive grant funds to do so. Society management estimates the Society would need an additional \$53,757 annually for 1.3 FTE, plus a minimum of \$5,000 in funding for administrative expenses for the next eight years in order to adequately monitor artifacts on a continuing basis. The Society requested this FTE and funding increase in the 2005 session, but it was denied. The Society has again requested this increase for the 2009 biennium and the request is currently pending with the Governor's Office of Budget and Program Planning.

## Findings and Recommendations

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### **Recommendation #6**

**We recommend the Society comply with its policies governing the management and control of its collections and follow its monitoring procedures to ensure all artifacts are properly controlled.**

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### **Administrative Fees**

**The Society is not recording fees within the proper fund type structure and is unable to provide support for the fees charged.**

The Society's Centralized Services Division maintains the Society's accounting records and performs other administrative activities for the Society as a whole. The Centralized Services Division is charging an administrative fee to the Lewis & Clark Commission, Old Governor's Mansion, and Montana Heritage Project for these activities and recording these fees in an Enterprise Fund. The administrative fee is a 4 percent fee for all grant activity, and a 10 percent fee for all other activity. Society personnel were unable to provide support for the determination of these fee percentages.

Section 17-2-102, MCA, states the enterprise fund type accounts for operations where the costs of providing goods and services to the general public on a continuing basis are to be financed or recovered primarily through user charges. Since these programs are part of the Society itself, these fees do not meet the description of enterprise fund activity. As a result, the use of this fund type to record these revenues is not appropriate.

### **Recommendation #7**

**We recommend the Society:**

- A. Record activity on the accounting records in the proper fund in accordance with state law, and**
- B. Maintain support for the administrative fees charged to programs within the Society.**

## Findings and Recommendations

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### Accounting Misstatements

**The Society made errors on the state's accounting records related to proper revenue and expenditure classifications, proper revenue recognition, and the recognition of credit card transaction fees.**

State law requires the Society to input all necessary transactions before the end of the fiscal year to present the receipt, use, and disposition of all money, for which it is accountable, in accordance with generally accepted accounting principles. This report section identifies areas where transactions recorded by the Society resulted in errors on the accounting records.

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### Improper Revenue Classification

The Society receives Accommodations Tax revenues each year as directed by state law. The Society records this revenue within the Grants, Contracts, Donations and Abandonments revenue classification. Per state accounting policy, this revenue should actually be recorded as an Operating Transfer-In within the Other Financing Sources revenue classification. As a result, the Grants, Contracts, Donation and Abandonments revenue classification is overstated and the Other Financing Sources revenue classification is understated by \$621,017 in fiscal year 2004-05 and \$625,703 in fiscal year 2005-06.

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### Improper Expenditure Classification

The Publications Program within the Society incurs printing costs related to the magazine and various books it prints and sells. These printing costs were not recorded consistently during fiscal year 2005-06. Some of this activity was recorded in the Other Services expenditure classification, while some was recorded in the Goods Purchased for Resale expenditure classification. All of the activity should have been recorded in the Goods Purchased for Resale classification. As a result, the Other Services expenditure classification is overstated and the Goods Purchased for Resale classification is understated by \$29,803 in fiscal year 2005-06.

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### Improper Revenue Recognition

In certain situations, the Society receives federal revenues prior to making the related expenditures. State accounting policy requires four criteria to be met in order to recognize revenue, one of which is

## Findings and Recommendations

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the revenue has been earned. Revenue is considered to have been earned when the exchange of goods or services has taken place. The Society received revenues at the end of fiscal year 2003-04, which it properly deferred. When the related expenditures were made and the revenue was earned in fiscal year 2004-05, the revenue was recognized as a prior year item related to fiscal year 2003-04. As a result, the Prior Year Revenues & Transfers-In Adjustments is overstated and Actual Budgeted Revenues & Transfers-In is understated by \$20,216 in fiscal year 2004-05.

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### Credit Card Fees

The Society receives credit card revenues through sales from the store at the Society and through on-line orders, purchases of magazine subscriptions and memberships, purchase of tour train tickets and museum entrance fees, as well as through other sales at the Society. The various credit card companies charge the Society a fee for the processing of these transactions. The Society has been netting these service fees against the revenue received when recording the activity on the accounting records. By recording only the amounts received from credit card companies, the Society understated the Sale of Documents, Merchandise and Property revenue and Operating Expenses by approximately \$7,500 and \$6,600 in fiscal years 2004-05 and 2005-06, respectively.

#### **Recommendation #8**

**We recommend the Society:**

- A. Record revenue and expenditure activity within the proper revenue and expenditure classifications on the accounting records;**
- B. Recognize federal grant revenue when it is earned; and**
- C. Enter all activity related to credit card transactions at the Society on the accounting records in accordance with state accounting policies and procedures.**



# Disclosure Issue

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## Severance Pay

The Montana Historical Society Board of Trustees entered into a severance agreement with one Society employee and retention pay agreements with two Lewis & Clark Bicentennial Commission (Commission) employees during fiscal years 2004-05 and 2005-06. The payments for the Society employee were made during fiscal year 2005-06, while the payments for the Commission employees will be made during fiscal year 2006-07.

The severance agreement for the Society employee included placing the employee on administrative leave until the employee obtained another full-time position or June 30, 2006, whichever occurred first. The employee received the normal salary and benefits, including health insurance coverage, and vacation and sick leave. The employee did not obtain another full-time position, and therefore, received payment of salary and benefits until June 30, 2006. The employee received payments for eight months at a cost of approximately \$75,000.

By law, the Commission will terminate December 31, 2006. The Society signed retention pay agreements with two Commission employees to encourage them to remain with the Commission until their work is complete. Per these agreements, the Commission guaranteed one employee \$15,000 and another employee \$20,000 if they completed their assignments.

State statute does not authorize or prohibit these agreements. Since the legislature's intent regarding this issue is unclear, we present this as a disclosure issue and make no recommendation at this time.

# **Independent Auditor's Report & Agency Financial Schedules**

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# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
Tori Hunthausen,  
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:  
James Gillett  
Jim Pellegrini

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Montana Historical Society (Society) for each of the fiscal years ended June 30, 2006, and 2005. The information contained in these financial schedules is the responsibility of the Society management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the Society's assets and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Society for each of the fiscal years ended June 30, 2006, and 2005, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

*/s/ James Gillett*

James Gillett, CPA  
Deputy Legislative Auditor

August 16, 2006



HISTORICAL SOCIETY  
SCHEDULE OF CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Permanent Fund
FUND BALANCE: July 1, 2005	\$ <u>(87,216)</u>	\$ <u>921,371</u>	\$ <u>18,085</u>	\$ <u>485,904</u>	\$ <u>1,127,827</u>
ADDITIONS					
Budgeted Revenues & Transfers-In	12	934,691	764,360	887,851	
Nonbudgeted Revenues & Transfers-In	303	766,577		16	170,266
Prior Year Revenues & Transfers-In Adjustments		(2,016)	424	1,846	
Direct Entries to Fund Balance	<u>2,014,652</u>	<u>143,673</u>			
Total Additions	<u>2,014,967</u>	<u>1,842,925</u>	<u>764,784</u>	<u>889,713</u>	<u>170,266</u>
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	2,098,388	1,058,574	768,643	983,122	
Nonbudgeted Expenditures & Transfers-Out	(592)	886,104		4,099	17,442
Prior Year Expenditures & Transfers-Out Adjustments	<u>(46)</u>	<u>4,797</u>	<u>17,181</u>	<u>(98)</u>	
Total Reductions	<u>2,097,750</u>	<u>1,949,475</u>	<u>785,824</u>	<u>987,123</u>	<u>17,442</u>
FUND BALANCE: June 30, 2006	\$ <u><u>(169,999)</u></u>	\$ <u><u>814,821</u></u>	\$ <u><u>(2,955)</u></u>	\$ <u><u>388,494</u></u>	\$ <u><u>1,280,651</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

HISTORICAL SOCIETY  
SCHEDULE OF CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Permanent Fund
FUND BALANCE: July 1, 2004	\$ <u>(81,046)</u>	\$ <u>1,101,222</u>	\$ <u>(63,120)</u>	\$ <u>488,944</u>	\$ <u>1,071,170</u>
ADDITIONS					
Budgeted Revenues & Transfers-In	25	986,209	803,420	993,661	
Nonbudgeted Revenues & Transfers-In	447	506,493		61	84,071
Prior Year Revenues & Transfers-In Adjustments		(2,822)	44,020	8,190	
Direct Entries to Fund Balance	<u>1,830,839</u>	<u>166,508</u>	<u></u>	<u>(2,557)</u>	<u></u>
Total Additions	<u>1,831,311</u>	<u>1,656,388</u>	<u>847,440</u>	<u>999,355</u>	<u>84,071</u>
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	1,837,443	1,046,757	808,288	1,004,295	
Nonbudgeted Expenditures & Transfers-Out		801,522	10,193	(5,931)	27,414
Prior Year Expenditures & Transfers-Out Adjustments	<u>38</u>	<u>(12,040)</u>	<u>(52,246)</u>	<u>4,031</u>	<u></u>
Total Reductions	<u>1,837,481</u>	<u>1,836,239</u>	<u>766,235</u>	<u>1,002,395</u>	<u>27,414</u>
FUND BALANCE: June 30, 2005	\$ <u><u>(87,216)</u></u>	\$ <u><u>921,371</u></u>	\$ <u><u>18,085</u></u>	\$ <u><u>485,904</u></u>	\$ <u><u>1,127,827</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.  
Additional information is provided in the notes to the financial schedules beginning on page A-11.

HISTORICAL SOCIETY  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits		\$ 144,185				\$ 144,185
Taxes	\$ 303	557	\$ 246	\$ 16	\$ 11	1,133
Charges for Services		3,914		121,498		125,412
Investment Earnings		32,506			79,117	111,623
Sale of Documents, Merchandise and Property		6,474		717,696		724,170
Miscellaneous	12					12
Grants, Contracts, Donations and Abandonments		1,478,616			89,665	1,568,281
Other Financing Sources				50,503	1,473	51,976
Federal			732,699			732,699
Federal Indirect Cost Recoveries			31,839			31,839
Capital Contributions		33,000				33,000
Total Revenues & Transfers-In	315	1,699,252	764,784	889,713	170,266	3,524,330
Less: Nonbudgeted Revenues & Transfers-In	303	766,577		16	170,266	937,162
Prior Year Revenues & Transfers-In Adjustments		(2,016)	424	1,846		254
Actual Budgeted Revenues & Transfers-In	12	934,691	764,360	887,851	0	2,586,914
Estimated Revenues & Transfers-In	908	964,204	1,091,502	1,058,507		3,115,121
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (896)	\$ (29,513)	\$ (327,142)	\$ (170,656)	\$ 0	\$ (528,207)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits		\$ (3,821)				\$ (3,821)
Taxes	\$ (907)					(907)
Charges for Services		(1,464)		\$ (56,555)		(58,019)
Sale of Documents, Merchandise and Property		337		(114,098)		(113,761)
Miscellaneous	11					11
Grants, Contracts, Donations and Abandonments		(24,565)				(24,565)
Other Financing Sources				(3)		(3)
Federal			\$ (213,981)			(213,981)
Federal Indirect Cost Recoveries			(113,161)			(113,161)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (896)	\$ (29,513)	\$ (327,142)	\$ (170,656)	\$ 0	\$ (528,207)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.  
Additional information is provided in the notes to the financial schedules beginning on page A-11.



HISTORICAL SOCIETY  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Enterprise Fund</u>	<u>Permanent Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits		\$ 174,578				\$ 174,578
Taxes	\$ 447	692		\$ 61	\$ 3	1,203
Charges for Services		5,179		129,770		134,950
Investment Earnings		37,801			65,273	103,074
Sale of Documents, Merchandise and Property		6,238		825,329		831,566
Miscellaneous	25	30,000				30,025
Grants, Contracts, Donations and Abandonments		1,235,392			18,795	1,254,187
Other Financing Sources				46,752		46,752
Federal			\$ 753,725			753,725
Federal Indirect Cost Recoveries			93,715			93,715
Total Revenues & Transfers-In	472	1,489,880	847,440	1,001,912	84,071	3,423,775
Less: Nonbudgeted Revenues & Transfers-In	447	506,493		61	84,071	591,072
Prior Year Revenues & Transfers-In Adjustments		(2,822)	44,020	8,190		49,388
Actual Budgeted Revenues & Transfers-In	25	986,209	803,420	993,661	0	2,783,315
Estimated Revenues & Transfers-In	2,001	1,179,034	1,045,998	848,555		3,075,588
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (1,976)	\$ (192,825)	\$ (242,578)	\$ 145,106	\$ 0	\$ (292,273)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits		\$ (55,700)				\$ (55,700)
Charges for Services	\$ (2,000)	3,251		\$ 47,577		48,828
Sale of Documents, Merchandise and Property		4,642		112,529		117,171
Miscellaneous	24	29,999				30,023
Grants, Contracts, Donations and Abandonments		(172,192)				(172,192)
Other Financing Sources		(2,825)				(2,825)
Federal			\$ (232,188)			(232,188)
Federal Indirect Cost Recoveries			(10,390)	(15,000)		(25,390)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (1,976)	\$ (192,825)	\$ (242,578)	\$ 145,106	\$ 0	\$ (292,273)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

HISTORICAL SOCIETY  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Administration Program	Historic Preservation Program	Lewis & Clark Commission	Library Program	Museum Program	Publications Program	Total
Personal Services							
Salaries	\$ 1,034,404	\$ 289,732	\$ 93,123	\$ 459,461	\$ 381,145	\$ 149,355	\$ 2,407,220
Employee Benefits	340,609	93,156	26,932	155,074	128,843	47,299	791,913
Personal Services-Other	(456)			10	219	(4,527)	(4,754)
Total	<u>1,374,557</u>	<u>382,888</u>	<u>120,055</u>	<u>614,545</u>	<u>510,207</u>	<u>192,127</u>	<u>3,194,379</u>
Operating Expenses							
Other Services	477,699	49,142	12,186	42,628	215,971	80,731	878,357
Supplies & Materials	64,535	5,630	975	39,883	56,271	2,002	169,296
Communications	66,633	7,726	5,979	12,071	14,378	23,633	130,420
Travel	86,346	11,684	10,015	8,188	11,523	3,619	131,375
Rent	276,739	18,312	7,730	3,900	107,438		414,119
Repair & Maintenance	16,965	1,092	2	9,796	552	2	28,409
Other Expenses	108,326	16,244	32,026	30,800	44,365	(2,890)	228,871
Goods Purchased For Resale	98,008					60,244	158,252
Total	<u>1,195,251</u>	<u>109,830</u>	<u>68,913</u>	<u>147,266</u>	<u>450,498</u>	<u>167,341</u>	<u>2,139,099</u>
Equipment & Intangible Assets							
Equipment	<u>16,823</u>			<u>12,073</u>	<u>19,441</u>		<u>48,337</u>
Total	<u>16,823</u>			<u>12,073</u>	<u>19,441</u>		<u>48,337</u>
Grants							
From State Sources	706		198,119				198,825
From Federal Sources		96,500	41,805				138,305
From Other Sources	<u>67,228</u>						<u>67,228</u>
Total	<u>67,934</u>	<u>96,500</u>	<u>239,924</u>				<u>404,358</u>
Transfers							
Accounting Entity Transfers						50,503	50,503
Total						<u>50,503</u>	<u>50,503</u>
Debt Service							
Loans			938				938
Total			<u>938</u>				<u>938</u>
Total Expenditures & Transfers-Out	<u>\$ 2,654,565</u>	<u>\$ 589,218</u>	<u>\$ 429,830</u>	<u>\$ 773,884</u>	<u>\$ 980,146</u>	<u>\$ 409,971</u>	<u>\$ 5,837,614</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 1,103,145	\$ 46,155		\$ 658,023	\$ 239,924	\$ 50,503	\$ 2,097,750
State Special Revenue Fund	922,735	12,138	\$ 376,202	31,749	597,323	9,328	1,949,475
Federal Special Revenue Fund	75,330	522,201	53,628	5,811	128,279	575	785,824
Enterprise Fund	549,619	8,724		67,194	12,021	349,565	987,123
Permanent Fund	<u>3,736</u>			<u>11,107</u>	<u>2,599</u>		<u>17,442</u>
Total Expenditures & Transfers-Out	2,654,565	589,218	429,830	773,884	980,146	409,971	5,837,614
Less: Nonbudgeted Expenditures & Transfers-Out	682,432	5,918	2,695	17,590	210,841	(12,424)	907,052
Prior Year Expenditures & Transfers-Out Adjustments	<u>5,924</u>	<u>17,413</u>	<u>(1,175)</u>	<u>(272)</u>	<u>(700)</u>	<u>643</u>	<u>21,833</u>
Actual Budgeted Expenditures & Transfers-Out	1,966,209	565,887	428,310	756,566	770,005	421,752	4,908,729
Budget Authority	<u>2,390,915</u>	<u>859,630</u>	<u>478,690</u>	<u>788,579</u>	<u>964,312</u>	<u>525,361</u>	<u>6,007,487</u>
Unspent Budget Authority	<u>\$ 424,706</u>	<u>\$ 293,743</u>	<u>\$ 50,380</u>	<u>\$ 32,013</u>	<u>\$ 194,307</u>	<u>\$ 103,609</u>	<u>\$ 1,098,758</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 83,501	\$ 76		\$ 55	\$ 21		\$ 83,653
State Special Revenue Fund	16,513	8,121	\$ 21,540	22,301	78,671		147,156
Federal Special Revenue Fund	105,749	284,270	28,840	9,137	108,791	\$ 30,793	567,580
Enterprise Fund	<u>218,943</u>	<u>1,276</u>		<u>520</u>	<u>6,814</u>	<u>72,816</u>	<u>300,369</u>
Unspent Budget Authority	<u>\$ 424,706</u>	<u>\$ 293,743</u>	<u>\$ 50,380</u>	<u>\$ 32,013</u>	<u>\$ 194,307</u>	<u>\$ 103,609</u>	<u>\$ 1,098,758</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.  
Additional information is provided in the notes to the financial schedules beginning on page A-11.

HISTORICAL SOCIETY  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Administration</u>	<u>Historic Preservation</u>	<u>Lewis &amp; Clark Commission</u>	<u>Library</u>	<u>Museum</u>	<u>Publications</u>	<u>Total</u>
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT							
Personal Services							
Salaries	\$ 861,856	\$ 308,285	\$ 94,544	\$ 440,726	\$ 340,388	\$ 163,713	\$ 2,209,512
Employee Benefits	264,198	97,821	27,080	160,063	111,674	51,013	711,849
Personal Services-Other	966			135		1,497	2,598
Total	<u>1,127,020</u>	<u>406,106</u>	<u>121,624</u>	<u>600,924</u>	<u>452,062</u>	<u>216,223</u>	<u>2,923,959</u>
Operating Expenses							
Other Services	417,996	58,021	10,924	34,256	105,676	43,297	670,170
Supplies & Materials	103,185	3,197	1,524	45,711	51,287	6,554	211,458
Communications	46,005	7,991	7,071	10,361	12,914	29,303	113,645
Travel	90,259	15,976	9,259	13,840	8,628	2,642	140,604
Rent	235,495	17,606	5,769	191	103,271	37	362,369
Repair & Maintenance	13,300	1,031		7,942	261	38	22,572
Other Expenses	111,444	18,397	30,500	24,889	10,328	(28,038)	167,520
Goods Purchased For Resale	159,311					128,152	287,463
Total	<u>1,176,995</u>	<u>122,219</u>	<u>65,047</u>	<u>137,190</u>	<u>292,365</u>	<u>181,985</u>	<u>1,975,801</u>
Equipment & Intangible Assets							
Equipment	<u>26,645</u>			<u>17,033</u>			<u>43,678</u>
Total	<u>26,645</u>			<u>17,033</u>			<u>43,678</u>
Grants							
From State Sources			165,583				165,583
From Federal Sources		23,649	126,955				150,604
From Other Sources	160,789						160,789
Total	<u>160,789</u>	<u>23,649</u>	<u>292,538</u>				<u>476,976</u>
Transfers							
Accounting Entity Transfers						46,752	46,752
Total						<u>46,752</u>	<u>46,752</u>
Debt Service							
Loans			2,598				2,598
Total			<u>2,598</u>				<u>2,598</u>
Total Expenditures & Transfers-Out	\$ <u>2,491,449</u>	\$ <u>551,974</u>	\$ <u>481,807</u>	\$ <u>755,147</u>	\$ <u>744,427</u>	\$ <u>444,960</u>	\$ <u>5,469,764</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 940,038	\$ 46,838		\$ 624,403	\$ 179,449	\$ 46,753	\$ 1,837,481
State Special Revenue Fund	899,432	11,577	\$ 354,852	39,485	510,733	20,160	1,836,239
Federal Special Revenue Fund	86,570	493,559	126,955	11,265	49,116	(1,230)	766,235
Enterprise Fund	549,406			68,583	5,129	379,277	1,002,395
Permanent Fund	16,003			11,411			27,414
Total Expenditures & Transfers-Out	2,491,449	551,974	481,807	755,147	744,427	444,960	5,469,764
Less: Nonbudgeted Expenditures & Transfers-Out	722,575	17,271	16,747	29,156	72,346	(24,898)	833,197
Prior Year Expenditures & Transfers-Out Adjustments	<u>(1,259)</u>	<u>(52,246)</u>	<u>(3,198)</u>	<u></u>	<u>(2,425)</u>	<u>(1,088)</u>	<u>(60,216)</u>
Actual Budgeted Expenditures & Transfers-Out	1,770,133	586,949	468,258	725,991	674,506	470,946	4,696,783
Budget Authority	1,842,501	734,897	667,991	745,664	845,438	519,045	5,355,536
Unspent Budget Authority	\$ <u>72,368</u>	\$ <u>147,948</u>	\$ <u>199,733</u>	\$ <u>19,673</u>	\$ <u>170,932</u>	\$ <u>48,099</u>	\$ <u>658,753</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 680	\$ 593		\$ 526	\$ 336		\$ 2,135
State Special Revenue Fund	15,079		\$ 137,765	2,825	21,940		177,609
Federal Special Revenue Fund	43,919	147,355	61,968	13,349	144,573	\$ 5,700	416,864
Enterprise Fund	12,690			2,973	4,083	42,399	62,145
Unspent Budget Authority	\$ <u>72,368</u>	\$ <u>147,948</u>	\$ <u>199,733</u>	\$ <u>19,673</u>	\$ <u>170,932</u>	\$ <u>48,099</u>	\$ <u>658,753</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

# Montana Historical Society

## Notes to the Financial Schedules

### For the Two Fiscal Years Ended June 30, 2006

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#### 1. Summary of Significant Accounting Policies

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##### Basis of Accounting

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The Society uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General Fund, State Special Revenue Fund, Federal Special Revenue Fund, and Permanent Fund). In applying the modified accrual basis, the Society records:

Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.

Expenditures for valid obligations when the Society incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the Society to record the cost of employees' annual and sick leave when used or paid.

The Society uses accrual basis accounting for its Proprietary Fund category (Enterprise Fund). Under the accrual basis, as defined by state accounting policy, the Society records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the Society receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

##### Basis of Presentation

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The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared

## Notes to the Financial Schedules

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from the transactions posted to the state's accounting system without adjustment. The Society uses the following funds:

### **Governmental Fund Category**

**General Fund** – to account for all financial resources except those required to be accounted for in another fund.

**State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Society State Special Revenue Funds include donations, the Historic Sights and Signs Program, the Montana Lewis & Clark Bicentennial Commission (Bicentennial Commission) and the Montana Heritage Project.

**Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. The Society's Federal Special Revenue Funds include the state's Historic Preservation Office and the Bicentennial Commission.

**Permanent Fund** – to account for financial resources that are permanently restricted to the extent that only earnings, and not principal, may be used for purposes that support the Society's programs. The Society uses this fund for private donations for which the donor permitted the use of investment earnings on the donation.

### **Proprietary Fund Category**

**Enterprise Fund** – to account for operations financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges. Society Enterprise Funds include the Publications Program, and store/merchandise operations.

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## **2. General Fund Balance**

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The Society has authority to pay obligations from the statewide General Fund within its appropriation limits. The Society expends cash or other assets from the statewide fund when it pays General Fund obligations. The Society's outstanding liabilities exceed the assets it has placed in the fund,

## Notes to the Financial Schedules

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resulting in negative ending General Fund balances for each of the fiscal years ended June 30, 2005, and June 30, 2006.

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### 3. Direct Entries to Fund Balance

Direct entries to fund balances in the General Fund and the State Special Revenue Fund include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

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### 4. Nonbudgeted Activity

The Society had significant nonbudgeted revenues in the State Special Revenue Fund and the Permanent Fund on the Schedule of Total Revenues and Transfers-In in both fiscal years 2004-05 and 2005-06. Additionally, the Society had significant nonbudgeted expenditures on the Schedule of Total Expenditures and Transfers-Out in the Administration Program. The majority of this nonbudgeted activity relates to donations revenue received by the Society, as well as the related expenditures of those donations.

## **Society Response**

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# MONTANA HISTORICAL SOCIETY

225 North Roberts ♦ P.O. Box 201201 ♦ Helena, MT 59620-1201  
♦ (406) 444-2694 ♦ FAX (406) 444-2696 ♦ [www.montanahistoricalsociety.org](http://www.montanahistoricalsociety.org) ♦

October 2, 2006

Scott A. Seacat, Legislative Auditor  
Legislative Audit Division  
PO Box 201705  
Helena, MT 59620-1705

RE: Montana Historical Society Audit

Dear Scott:

We appreciate the opportunity to respond to the audit recommendations for the Montana Historical Society for the fiscal years June 30, 2005 and 2006. Our responses to the eight recommendations included in the report are as follows:

## **Recommendation #1**

A. Recover indirect costs to the fullest extent possible in accordance with state law.

**Concur.** The Society will comply with the indirect allocations requirement per state law. The Society is in the process of evaluating the indirect cost calculation process. This requirement of recovering indirect cost at the maximum amount will have a detrimental impact resulting in the possible lay off of ¼ staff members and reduce the effectiveness of the programs administered by the State Historic Preservation Office.

B. Notify and receive approval from the Office of Budget and Program Planning prior to accepting grants that limit the Society's ability to recover indirect costs as required by state law.

**Concur.** The Society will notify and seek approval from Office of Budget and Program Planning in the future if a grant limits the amount of indirect allowed.

## **Recommendation #2**

We recommend the Society minimize the time between the draw of federal funds and their disbursement for federal program purposes as required by federal regulations.

**Concur.** The Society monitors the cash flow daily and requests draws when cash is minimal or depleted. Some grantors send the majority of the grant with the approval letter, thus the cash is positive throughout the entire grant period. Others require the Society to request reimbursement after expenditures have been made, and still others allow draws to be made

regularly to maintain a positive balance without having too much cash on hand. The occurrences identified in the audit are instances where cash was drawn with the anticipation of paying subgrants or operating costs. The payments were delayed so the cash was positive for an extended period of time, but no longer than six weeks.

### **Recommendation #3**

We recommend the Society analyze its federal special revenue fund accounts as required by state accounting policy and correct identified errors.

**Concur.** The Society will analyze its federal special revenue fund accounts, resolve identified errors and implement policies and procedures to record federal revenue in accordance with state accounting policy. The occurrences identified occurred during fiscal year end 2005. The error was discovered internally and subsequently corrected. FY2006 entries were made in accordance to policy.

### **Recommendation #4**

We recommend the Commission distribute Lewis & Clark license plate revenue proceeds to entities and organizations that meet the criteria established by the Commission in accordance with state law.

**Partially concur.** The Lewis & Clark Bicentennial Commission is administratively attached to the Society. However, the Commission Board (slated to sunset December 31, 2006) established the criteria for the use of the Lewis & Clark Bicentennial License Plates and oversaw the activities of the Commission employees and events, which included the Lewis & Clark Legacy Campaign. Other than having a seat on the Commission Board, the Society did not have a controlling interest to influence decisions or activities performed by the Commission.

### **Recommendation #5**

We recommend the Society record the inter-entity loan to finance the bronze relief for the Montana State Senate chambers on the accounting records in accordance with state law.

**Concur.** The Society will record an inter-entity loan in accordance with state law.

### **Recommendation #6**

We recommend the Society comply with its policies governing the management and control of its collections and follow its monitoring procedures to ensure all artifacts are properly controlled.

**Partially Concur.** The Museum Collections Manager as well as the Curator of Historical Collections and Curator of Art daily monitor museum collections during the course of their work day. They regularly physically inspect items or edit collections records as do our trained collections volunteers and other museum staff working on collections projects. We have completed project inventories, including those for the textile collection, paintings collection, Native American collections, Sriver collection, Original Governor's Mansion inventory, incoming collections, incoming and outgoing loans, temporary exhibitions, conservation spot-check inventory of 10% of the collections, and have done annual spot inventory.

The Society's 1.0 FTE Museum Collections Manager cannot keep pace with collections documentation needed for our large art and artifact collection.

There is a huge backlog of Museum collections to be catalogued (est. 35,000 items) as well as over approximately 1,000 new items added each year. We estimate the backlog (re-acquisitioned items or those not ever accessioned with a current registration number) would take 25 years to fully catalog (cataloging includes measurements, full description, condition assessment, material culture research, digitally photographing, etc.). This task cannot be done without the necessary resources infused to the Museum Collections Office for this purpose. The Museum has been requesting collections assistance in agency biennial budget planning for the last few legislative sessions. The alternative is the approach we have been using -- use current staff doing what they can to get the information into the system or seek temporary funding to assist us.

State rules and policies require the Museum to provide accountability to the public regarding our public-owned collections on legal, ethical and management fronts. The Society has very limited resources to catalogue and document all of the Museum's collection. The Society has received grants and state funds beginning in 2000 and ending in 2003 to facilitate this endeavor. Without sufficient support from the Legislature, the Society will continue to have this item as an audit exception.

#### **Recommendation #7**

A. Record activity on the accounting records in the proper fund in accordance with state law.

**Partially Concur.** The Society has enterprise funds established in several programs within the Society, including the Historical Society Management Fund which is set up within the Administrative Program. Fees collected for Museum admittance and Lobby rentals are recorded to this enterprise fund. Since the administrative fees were charged only to non-general funded entities that were administratively attached to the Society, we felt this was an appropriate place to record administrative fees. Since the Society will no longer charge administrative fees to these entities, this issue is resolved.

- B. Maintain support for the administrative fees charged to programs within the Society.

**Concur.** The Society will no longer charge an administrative fee to the Original Governor's Mansion; the Lewis and Clark Commission will sunset on December 31, 2006; and the Montana Heritage Project is now defunct .

**Recommendation #8**

- A. Record revenue and expenditure activity within the proper revenue and expenditure classification on the accounting records.

**Partially Concur:** The Society receives Accommodations Tax revenues. The Department of Commerce receives a legislative appropriation for the Accommodation Tax with instructions to transfer a portion to the Society. Each month, Commerce would transfer the funds via an interunit journal and the Society would complete the coding, using a revenue code compatible with the initiating agency's code. The Society has contacted the Department of Administration asking for clarification. Effective July 1, 2006, the Department of Administration has instructed Department of Commerce and the Society to record the transactions as Transfer-Out and Transfer-In on an interunit journal.

- B. Recognize federal grant revenue when it is earned.

**Concur.**

- C. Enter all activity related to credit card transactions at the Society on the accounting records in accordance with state accounting policies and procedures.

**Concur.** MHS initiated this change effective July 1, 2006.

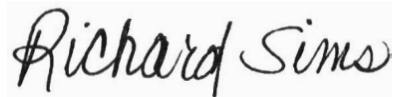
**Disclosure Issue**

The Montana Historical Society Board of Trustees approved a severance agreement with one Society employee and the Lewis & Clark Bicentennial Commission approved retention agreements with two employees. These are personnel issues affiliated with the Society. The Legislative auditors identified that these arrangements are not prohibited by State statute.

Scott Seacat  
October 2, 2006  
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We appreciate the professionalism demonstrated by your staff that participated in the audit. Thank you again for the opportunity to review the audit report and respond to the recommendations raised.

Sincerely,

A handwritten signature in black ink that reads "Richard Sims". The signature is written in a cursive, flowing style. The first name "Richard" is written with a large, prominent "R" and the last name "Sims" is written in a similar cursive style.

Richard Sims  
Director

DK:rha